

# Keeping an Eye on Nonappropriated Funds —The Other Side of Funding

by Sonya Henderson

## Introduction



As we all know, funds appropriated by Congress provide all the money we need to run the Air Force. There is no question about it, right? Well, if you were taking ASMCs new certification exam and answered yes, you would have just lost a few points. Hope you do better on the other questions! On a more serious note, nonappropriated funds (NAF), or funds not appropriated by Congress, provide funding for many of the most important people programs in the Air Force. To ensure the proper use of NAF funds, we have a well-developed program of NAF financial management and oversight. I'd like to introduce you to that program and its importance to the Air Force.

## NAF Dollars—What Are They?

This is a Continuing  
Professional Education  
(CPE) article.

Earn credit by going to  
the SAF/FM Home Page

at [www.saffm.hq.af.mil](http://www.saffm.hq.af.mil)

then click on

Profess Develop

and then click on

Comptroller Magazine

Quiz.

Just what are NAF dollars and why should you care about them? NAF dollars are those dollars earned by the wide variety of Air Force Services activities, e.g., clubs, golf courses, aero clubs, child development centers, etc. NAF dollars are used to maintain/expand/upgrade these activities. In a number of instances the Air Force will use both appropriated fund (APF) and NAF money to support certain activities, e.g., arts and crafts, child care centers, etc. The actual funding source depends upon how an activity is categorized: CAT A, CAT B, or CAT C (discussed later in this article).

As to why we should care about NAF dollars, the answer is simple—NAF activities are a key to the Air Force's Quality-of-Life Initiative. NAF dollars are used for the collective benefit of military personnel, their dependents, and authorized civilians. NAF activities help build a strong community spirit and help develop a sense of unity among Air Force members. The value of the teamwork that ensues both on the job and after duty hours is beyond measure. Air Force Services, which manages the many NAF activities (AF/SV—hereinafter called Services), was previously named Air Force Morale, Welfare and Recreation (MWR). These words remain a fundamental part of what Services does. Think of it—don't we all need MWR, in some form, to maintain our well being and our capacity to work productively?

## NAF Oversight Background

I hope I've pretty well established the importance of NAF dollars and their relationship to Air Force Quality-of-Life. Now let's discuss the oversight of those dollars and its importance.

## Keeping an Eye on Nonappropriated Funds—The Other Side of Funding (Continued...)

Latest data show that Services manages over \$2.4B per year and moves about \$7.9M in cash daily through the NAF banking system. In addition, the Air Force has a major role in overseeing both AAFES (sales of approx \$7B per year), and DECA (sales of over \$4B per year). As you can see we're talking about some very substantial dollars when we talk about NAF oversight.

From a historical perspective, SAF/FM assumed responsibility for providing independent NAF financial oversight of Services organizations in FY90. To ensure that Air Force NAF dollars are managed in the same prudent fiduciary manner as APF dollars, we have developed guidance and trained our NAF oversight personnel. (The NAF oversight function is governed by AFI 65-107, Nonappropriated Financial Management Oversight Responsibilities). Those who oversee NAF dollars, most of whom are 510-series accountants, are employed as Nonappropriated Fund Financial Analysts (NAFFAs). We have at least one NAFFA at every installation and MAJCOM in the Air Force, with a four-person NAF oversight office assigned to SAF/FMC at the Pentagon.

At HQ USAF, the Air Force Chief of Staff is responsible for establishing and controlling Air Force Services policies and NAF policies through the Air Force Morale, Welfare, and Recreation Advisory Board (AFMWRAB). The Air Force Vice Chief of Staff chairs the AFMWRAB and makes recommendations to the Chief on the Services overall program.

The AFMWRAB is comprised of some of the most senior leaders in the Air Force (AF/DP, AF/IL, AF/ILE, SAF/FMB, AF/CCC, and all MAJCOM/CVs). They collectively provide guidance and control over Services programs. For example, the AFMWRABs Finance and Audit (F&A) Committee, chaired by SAF/FMB, independently reviews financial results and advises the AFMWRAB on financial plans, budgets, and overall financial operations of the Services community.

The Investment Subcommittee, chaired by SAF/FMC, reviews investment practices for Services and advises the F&A Committee on prudent investment strategies. For NAF employee retirement funds, the recommendations made by SAF/FMC must balance potential return on various financial instruments with their attendant risks. The challenges faced by the Investment Subcommittee are as complex as those faced by any professional pension fund manager.

### What NAFFAs Actually Do

Performing thorough NAF oversight requires an integrated team of Air Force personnel, each contributing toward providing an ongoing independent assessment of Services financial operations. At each organizational level, the NAFFA is the key person in ensuring that the highest levels of financial stewardship are met:

**Installation Level.** Under the standard base-level comptroller organization (FM memo dated 24 April 98), the installation NAFFA reports directly to the Comptroller. The NAFFA is a key position within FM, and must have direct access to the Comptroller. The installation NAFFA evaluates the reliability of Services financial reporting, internal controls, effectiveness and efficiency of operations, and compliance with applicable Air Force guidance. The main objective is to provide reasonable assurance that controls are in place to protect NAF resources.

Installation NAFFAs do not perform line or staff duties within NAF organizations (that might serve to impair their independence). Rather, NAFFAs provide financial management information for the Comptroller, Services Commanders, and senior Installation Leaders by overseeing all NAF activities and issues. A sample of NAFFA responsibilities would include the following oversight tasks: analysis of NAFI financial statements; reviewing cash controls/audit of cashier and cost center reports; reviewing internal management controls; reviewing appropriated fund support to Services; verifying NAF balance sheets and subsidiary accounts; and certifying Services Annual Statement of Assurance.

**MAJCOM Level.** The MAJCOM NAFFA is responsible for monitoring MAJCOM Services programs compliance with financial policy, oversight of financial management, and chairing the MAJCOM NAF Finance Committee. The MAJCOM NAFFA also serves as a liaison between the installation NAFFAs and the AF Secretariat (SAF/FMC).

**Secretariat Level.** SAF/FM, through SAF/FMC, is responsible for developing and disseminating Air Force-wide policy for all NAF matters and providing implementing assistance to MAJCOM and Installation-level NAFFAs.

A list of tools for NAFFAs can be found on the SAF/FM home page at <http://www.saffm.hq.af.mil>. This list includes items such as FM training aids, flowcharts of assigned tasks, Air Force Audit Agency NAF Oversight guides, AFI 65-107 and AFI 65-106, Appropriated Fund Support of Morale, Welfare, and Recreation and

Nonappropriated Fund Instrumentalities, SAF/FMCEB Updates, Crossfeed Issues from NAFFAs, and a worldwide NAFFA listing.

### A Few Details

MWR activities are grouped into three categories depending on the types of overall mission support provided. Category A, Mission Sustaining Activities, have the least capacity to generate NAF revenue. As such, Category A activities should receive maximum appropriated support (AF goal 100%). Category B, Basic Community Support Activities, have the capacity to generate some NAF revenue, and should receive substantial appropriated support (AF goal at least 50%). Category C, Revenue-Generating Activities, sometimes referred to as business activities, have the highest capacity to generate NAF revenue. Category C activities are capable of funding most expenses. They should generally only receive indirect appropriated support for common support services, such as, fire protection and security police. Category C activities are entitled to receive appropriated fund support for repair and maintenance of facility health and safety items, and for the structural integrity of buildings.

The use of all appropriated funds to support Services activities must be reported to Congress. The distribution and execution of appropriated fund support to Services is captured using the WinBAS system. This data is sent from the installations through the OPLOCs to DFAS-Denver, where it is compiled and forwarded to the HQ Services Agency for reporting purposes.

Air Force Services has always operated under a mandate to produce financial statements for NAFIs. Monthly financial statements portray a snapshot of NAFI financial condition and are consonant with the Government Management Reform Act (GMRA) of 1994, which requires auditable financial statements. The base level NAFFA requirement to analyze NAF financial statements monthly, as well as the NAFFAs annual review of NAF balance sheet accounts for accuracy and adequate supporting documentation, helps ensure NAF financial statements are accurate and auditable. The NAFFAs and Services Resource Management Flight Chiefs then certify the accuracy of installation financial statements. In addition, NAF central funds managed by the Air Force Services Agency (AF/SVA) in San Antonio are audited annually by a public accounting firm. Audit results are reviewed for accuracy and consistency by SAF/FMCEB personnel, and then reported to the AFMWR Advisory Board's Finance and Audit Committee.

### AFAA Audit of NAF Oversight Program

We continue to work on improving the Air Force NAF Oversight Program. Recently we requested that the Air Force Audit Agency (AFAA) conduct a program review of our NAF oversight program. We are seeking AFAAs independent look at how NAF oversight might be improved on an Air Force-wide basis. Thus far, the AFAA has completed the planning phase of a NAF oversight program audit. It has randomly selected the MAJCOMs and Installations to be included in the upcoming audit, which is scheduled to begin this month (January 2000). The overall objective is to evaluate the effectiveness of the installation NAF Oversight program, to determine whether: 1) NAFFAs provide adequate financial oversight support to Services, and 2) Services managers effectively use NAFFA—provided financial oversight support to improve operations.

Selected audit locations include:

a. MAJCOMs: HQs ACC, AETC, AFMC, AFSPC, AMC, PACAF, and USAFE.

b. Installations: Arnold AFB, Fairchild AFB, FE Warren AFB, Grand Forks AFB, Kadena AB, Langley AFB, Patrick AFB, Peterson AFB, Robins AFB, Seymour-Johnson AFB, Shaw AFB, Spangdahlem AB, Tyndall AFB, Vandenberg AFB, and Whiteman AFB.

### Summary

NAF dollars are often referred to as the troops money and we think the troops deserve our highest level of support. SAF/FM is committed to ensuring very high quality NAF financial management and oversight. We will continue to provide Commanders with independent advice and analysis for both NAF and APF issues as we continue to work closely with Services. We know that Air Force diligence in NAF oversight embodies the essence of responsible government. We owe this to both the troops and the taxpayer.



# About the Author

Ms Sonya L. Henderson is in a career broadening position assigned to the Air Force Cost and Economic Organization (SAF/FMC) in the Pentagon. She performs NAF financial oversight within the Business Management division of FMC. She works with Air Force Services and other Air Staff organizations to provide guidance and training for MAJCOM and installation-level NAFFAs. She also develops and maintains Air Force policy pertaining to NAF oversight. Ms Henderson began her Air Force career on active duty from 1985-1989. Her previous assignments included working as a MAJCOM and installation-level NAFFA. She held various positions within Services NAF Accounting Offices. Ms Henderson has a bachelor of science degree in Business Management from University of Maryland University College and is currently in the Department of Defense Graduate Management Program pursuing an MPA with a concentration in Financial Management from Troy State University.

---